Logistics Enterprise Integration Advisory Board

Exchange Pricing

17 November 2003

Integrated Logistics Enterprise = Common Operating Picture

Introduction

- Purpose: Present an Overview of Exchange Pricing (EP) & Implementation Solution

- Agenda:
  - Why Exchange Pricing?
  - The Solution Design
  - Progress to Date
  - Next Steps
  - Schedule
  - Summary . . . Parting Thoughts

Exchange Pricing

Program Budget Decision (PBD) 422 & 704

Exchange Pricing is a business process improvement mandated by the Office of the Secretary of Defense (Comptroller) to mitigate the financial problems the Army has experienced with granting excess credit through its current supply practices.

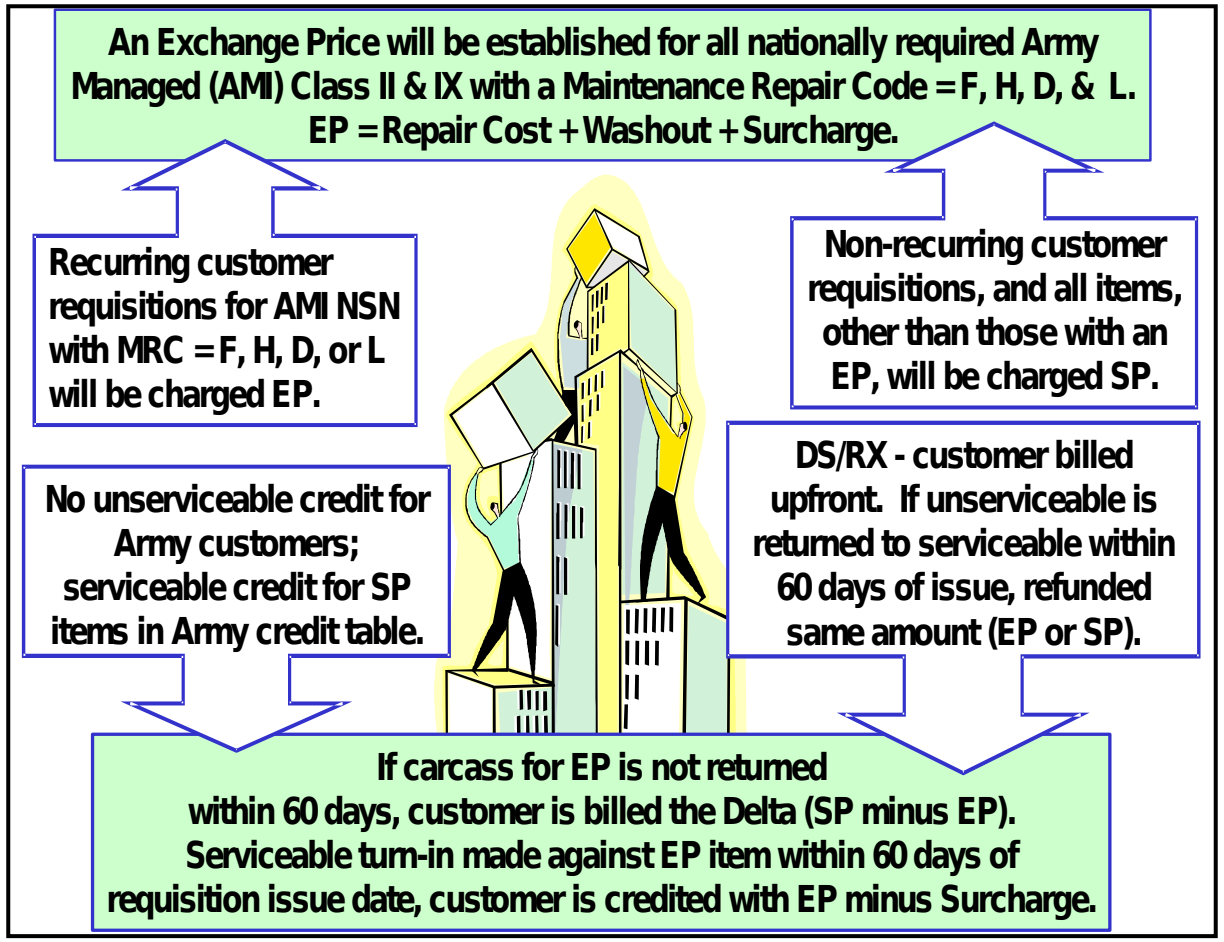
15 May OSD Approved Implementation Plan for Execution

FY 04 OSD Funded

EP Overview

Objectives

- De-link cost of reparable from current Army credit programs
- Establish a dual pricing system to include an EP for nationally required NSN, and a SP for all other items.
- Eliminate unserviceable credit
- Capitalize AMI O&M SSA stock; maintain NAMI DS/RX & MCN assets in O&M environment.


An Exchange Price will be established for all nationally required Army Managed (AMI) Class II & IX with a Maintenance Repair Code = F, H, D, & L. EP = Repair Cost + Washout + Surcharge.
Recurring customer requisitions for AMI NSN with MRC = F, H, D, or L will be charged EP.
Non-recurring customer requisitions, and all items, other than those with an EP, will be charged SP.
No unserviceable credit for Army customers; serviceable credit for SP items in Army credit table.
DS/RX - customer billed upfront. If unserviceable is returned to serviceable within 60 days of issue, refunded same amount (EP or SP).
If carcass for EP is not returned within 60 days, customer is billed the Delta (SP minus EP). Serviceable turn-in made against EP item within 60 days of requisition issue date, customer is credited with EP minus Surcharge.

Changing Environment – EP Not DS/RX

Standard Price (SP) = Latest Acquisition Cost + Surcharge

Exchange Price (EP) = Repair Cost + Washout + Surcharge

Net Price = EP for EP item; SP for SP item

Today:

Circuit Card:

Standard Price: $129

Unserviceable Credit: $66

Serviceable credit: $100

- **Shift from current credit on turn-in to charge of "delta" (SP minus EP) if not turned in within 60 days**
- **No unserviceable credit for Army customers**
- **NSN with Maintenance Repair Code of H, D, L, F will have an assigned EP value**
- **Serviceable credit:**

  EP items = EP minus surcharge value;

  SP items = SP minus surcharge

Tomorrow:

Circuit Card:

Standard Price: $129

EP Price: $63

EP △ : $66 (No Return)

Serviceable Credit (EP minus Surcharge): $34

DS/RX Changing Environment

Standard Price (SP) = Latest Acquisition Cost + Surcharge

Exchange Price (EP) = Repair Cost + Washout + Surcharge

Net Price = EP for EP item (w/ a return); SP for SP item (w/o a return)

Today:

Electronic Control Unit (M1A1):

Standard Price: $3669

Unserviceable Credit: $1448

Serviceable credit: $2988

Net cost to command is piece parts & washouts.

- Shift from O&M cost transfer to direct customer billing from LMP for AMI DS/RX issues.
- AMI DS/RX stockage changes from O&M funding to AWCF funding
- Shift from current credit on turn-in to charge of "delta" (SP – EP) if not turned in within 60 days
- Shift from O&M cost transfer of unserviceable credit for turn-in to purchase price refund if item is returned from maintenance in serviceable condition within 60 days of issue date.

Tomorrow:

Electronic Control Unit (M1A1):

Standard Price: $3669

EP Price: $2181

EP : $1488 (No Return)

Serviceable Exchange Price Return (EP - Surcharge): $1500

Net cost to command is still [illegible] washout

The EP Solution

Systems must:

- ☑ Track Returns
- ☑ Match Returns to Sales
- ☑ Trigger Bill

ECPs

Exchange Pricing Business Rules

ECPs

Logistics Modernization Program

Functionality:

- EP for LMP direct customers minus DS/RX
- Customer Return Tracking (Includes DS/RX)
- Financial Triggers
- Management Reports

SARSS/MW-FCM/ODS

Functionality:

- EP Pricing
- Obligation/Accrual
- O&M MCN/NAMI DS/RX

- Fits the Landscape Architecture Study
- EP functionality more readily integrated into FLE & BEA
- LMP solution set supports both SARSS and LMP supported customers
- LMP functionality readily transferable to GCSS Army
- EP tracking and management validated in ERP environment before migration to GCSS Army

4 Phased Approach

Objectives:

- De-link the cost of reparable Class II and IX items from current Army credit programs
- Establish a dual pricing system.
- Eliminate unserviceable credit
- Eliminate AMI O&M SSA stock
- Maintain NAMI DS/RX and MCN assets in an O&M environment.

Phase 4 (FY06)

Train and Field

- Develop Sequence of Events
- Conduct training and fielding
- Gather metrics data

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Phase 3 (1 Jan 04 – 28 Feb 05)

System Modification & Testing

- Make program changes by system
- Final Conversion, Implementation, and Training Plans
- Conduct SIT

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Phase 2 (1 Nov 03 – 31 Mar 04)

Process Reengineering

- Develop Detailed Functional Descriptions (DFD)
- Formalize ECP
- Draft Test & Evaluation Master Plan, Metrics Plan and Implementation Plan

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Phase 1 (1 June – 31 Dec 03)

Program Planning and Requirements Determination

- Develop Business Rules and Implementing Procedures
- Develop detailed requirements a process flows

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Progress to Date

- **EP Study approved by Exec Dep to AMC CG, ADASA (Budget), ASA(FM&C), & OUSD(C)**
- **Received FY 03 funding; awaiting funding for FY04**
- **EP Phase 2 Underway - - Process Reengineering**
  - **Business Rules Workshop 15-17 Jul 03**
  - **EP Alpha Contracting Session with CSC 4-5 Aug 03**
  - **Baseline Business Rules 13 Aug 03**
  - **EP SOW developed & Working Group Approved 22 Aug 03**

Next Steps

- **Continue EP Phase 2 Process Reengineering; I.e., Dev detailed functional description, Formalize ECPs, Draft Test Evaluation Master Plan, Metrics plan**
  - **Developing Process Flows**
  - **Developing the Information Technology (IT) Architecture**
  - **Conducting Monthly IT IPR - - Requirement Determination & Process Flows**
- **Evaluate/Respond to CSC Proposal for LMP SOW**
- **Award Task Order - 25 Nov 03**

EP/LMP Contract Award Schedule

- ✓ **Draft SOW** — **Team CSC**
  28 Jul 03
- ✓ **Government review SOW** — **EP**
  4 Aug 03
- ✓ **Mutual Agreement to SOW** — **EP/Team CSC**
  5 Aug 03
- ✓ **Action items completed** — **Alpha Team**
  8 Aug 03
- ✓ **LCB briefing/approval** — **HQAMC**
  16 Oct 03
- ✓ **Technical Proposal/Cost Proposal** — **Team CSC**
  31 Oct 03
- ✓ **Advise OBOD** — **LAISO/HQAMC/EP**
  5 Nov 03
- **Technical Evaluation** — **LSSO**
  14 Nov 03
- **Complete Negotiations** — **Team CSC/EP**
  18 Nov 03
- **Funding to LSSO** — **HQAMC**

Summary

- **OSD(C) and Army leadership approved concept & implementation plan**
- **Program resources provided (FY03); FY04 funding is forthcoming**
- **Responsibility fixed - - AMC G3, EI**
- **EP implementation underway (Phase II)**
- **ASA(FM&C), PAED, Army G-4, AMC G-8, & MACOMs POCs designated and fully engaged in process**
- **Bottom line: On Schedule for Fielding in FY05/06**